



CREDIT INSURANCE:

The Safety Net You Need or a Waste of Money?

For many Americans, the holiday shopping season officially begins on “Black Friday,” the day after Thanksgiving. At a time when many consumers are worried about paying for even their most basic needs, it’s tempting to use credit to buy holiday presents. Many credit card companies know that, and are using the season to offer credit insurance for your account. The National Association of Insurance Commissioners (NAIC) offers these details to help you make a decision about your needs before purchasing credit insurance.

What is Credit Insurance?

Credit insurance is insurance that is sold in conjunction with a credit obligation or loan. If you lose your job or become unable to work due to some type of disability -- and these events prevent you from making the necessary loan payments -- credit insurance protects the lender from your inability to repay the loan by making payments to the lender on your behalf.

There are four main types of credit insurance:

- **Credit Life Insurance:** Pays off all or some of your loan if you die during the term of coverage.
- **Credit Disability Insurance:** Also known as credit accident and health insurance, it pays a limited number of monthly payments on a specific loan if you become ill or injured and cannot work during the term of coverage.
- **Credit Involuntary Unemployment Insurance:** Also known as involuntary loss of income insurance, it pays a specified number of monthly loan payments if you lose your job due to no fault of your own, such as a layoff, during the term of coverage.
- **Credit Property Insurance:** Protects personal property used to secure the loan if destroyed by events like theft, accident or natural disasters during the term of coverage. Unlike the first three credit insurance products, credit property insurance is not directly related to an event affecting your ability to repay your debt.

How Much Does It Cost?

There are a number of factors — including the amount of the loan or debt, the type of credit and the type of policy — that might impact the cost of a credit insurance policy. Companies will generally charge premiums by either using a single premium method or a monthly outstanding balance method.

Single Premium Method

The insurance premium is calculated at the time of the loan, and often added to the amount of the loan. This means that the borrower is responsible for the entire premium at the time the policy is purchased. In turn, the monthly loan payment would increase because the original loan amount now includes both the original loan amount and the insurance premium.

Monthly Outstanding Balance (MOB)

This method is generally used for credit cards, revolving home equity loans or similar debts. There are two subcategories to consider for this type of charge:

- **Open End Accounts:** The amount of the debt may increase over time and vary from month to month. The premium is charged monthly and is based on the monthly debt either by using the end of the month balance or the average daily balance depending on the terms of the policy. The amount will appear as a separate charge on the statement from the lender. The monthly insurance premium is part of each month’s required minimum payment and will be a varying cost.

- **Closed End Accounts:** The amount of debt does not change or decrease each month and a fixed amount is due each month. It is important to note that the failure to pay this amount on time every month could result in cancellation of the policy or that an additional balance will be due at the loan maturity date.

How Does It Pay Out?

The payment of the insurance claim will vary, depending on the situation:

- **Credit Life Insurance:** In the event of death, life insurance proceeds are paid directly to the creditor.
- **Credit Unemployment or Credit Disability Insurance:** In the event of unemployment or disability (as defined by the terms of the policy), the insurer makes payments to the creditor to keep the loan in force. The duration of payments will be outlined by the policy terms. The policy will identify the waiting period before benefits begin and how long benefits will continue. Again, unlike traditional disability insurance, payments are made to the creditor and not the consumer who purchased the product.

Full Disclosure

It is against the law for a lender to deceptively include credit insurance in your loan without your knowledge or permission. Before you sign any loan papers, ask the lender whether the loan includes any charges for voluntary credit insurance.

Is Credit Insurance Required for a Loan?

With the exception of private mortgage insurance (PMI), lenders cannot deny you credit if you do not buy optional credit insurance. PMI is extra insurance that lenders require from most homebuyers with less than a 20 percent down payment on the purchase of a home.

If a lender tells you that you will only get the loan if you buy the optional credit insurance, report the lender to your state insurance department and find another lender. Go to www.naic.org/state_web_map.htm for a link to your state insurance department's Web site.

Things to Consider

Before deciding to buy credit insurance from a lender, think about your needs, your options and the rates you are able to pay.

Consider these questions before signing the application:

- How much is the premium?
- Will the premium be financed as part of the loan? If so, will it increase your loan amount and cause you to pay additional interest?
- Can you pay the premium monthly instead of financing the entire premium as part of your loan?
- How much lower would your monthly loan payment be without the credit insurance?
- Will the insurance cover the full length of your loan and the full loan amount?
- What are the limits and exclusions on payment of benefits? (Spell out exactly what's covered and what's not.)
- Is there a waiting period before the coverage becomes effective?
- If you have a co-borrower, what coverage does he or she have and at what cost?
- Can you cancel the policy? If so, what kind of refund is available and are there penalties?

Watch for aggressive sales tactics and make sure you understand all of the documents you sign. If you have any questions about the coverage or the company selling the coverage, contact your state insurance department.

Before purchasing credit insurance, check to see what a traditional term life insurance or disability insurance policy would cost. You might decide it is less expensive to purchase traditional life insurance or disability insurance rather than purchasing credit insurance.

Stop. Call. Confirm.

If you are unsure about the insurance company you are dealing with, STOP before signing any paperwork or writing a check; CALL your state insurance department — easily reached by phone; and CONFIRM the company or agent offering insurance is legitimate and licensed in the state. Find contact details for your state insurance department at www.naic.org/state_web_map.htm.

For more information about auto, home, life and health insurance options, as well as tips for choosing the coverage that is right for you and your family, visit www.insureUonline.org.

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[The National Association of Insurance Commissioners](http://www.naic.org) Headquartered in Kansas City, Mo., the National Association of Insurance Commissioners (NAIC) is a voluntary organization of the chief insurance regulatory officials of the 50 states, the District of Columbia and five U.S. territories. The NAIC's overriding objective is to assist state insurance regulators in protecting consumers and helping maintain the financial stability of the insurance industry by offering financial, actuarial, legal, computer, research, market conduct and economic expertise. Formed in 1871, the NAIC is the oldest association of state officials. For more than 135 years, state-based insurance supervision has served the needs of consumers, industry and the business of insurance at-large by ensuring hands-on, frontline protection for consumers, while providing insurers the uniform platforms and coordinated systems they need to compete effectively in an ever-changing marketplace. For more consumer information, visit InsureUonline.org.

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